MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A.
Société Anonyme

Annual accounts
and
Directors' report
and
Independent Auditor's report
as of
30 June 2008

Table of contents

	Pages
Directors and other information	
Directors' report	
Statement of Directors' responsibilities	
Independent Auditor's report	1 - 2
Annual accounts	
- Balance sheet	3
- Income statement	4
- Statement of changes in equity	5
- Cash flow statement	6
- Notes to the annual accounts	7 - 56

MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A.

Directors and other information

Board of Directors	Term expires	Location
Chairman		
Massimo DI CARLO	2008	Italy
Directors		
Stefano PELLEGRINO	2008	Italy
Silvio PERAZZINI	2008	Italy
Paolo PONZANELLI	2008	Italy
Federico POTSIOS	2008	Italy
Alex SCHMITT	2008	Luxembourg
Managing Directors		
Luca MACCARI	2008	Luxembourg
Peter W GERRARD	2008	Luxembourg

Legal Advisors

Bonn Schmitt Steichen	Luxembourg

Independent auditor

Ernst & Young S.A.	Luxembourg

MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A.

Financial situation at 30 June 2008

Directors' report

The annual accounts for the year ended 30 June 2008 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union. Data presented for purposes of comparison has also been compiled on an IFRS-compliant basis.

During the year ended 30 June 2008, the Bank earned a net profit of €14.370.238 (30/06/2007: €8.996.701).

During the year under review bonds worth a total of €254.185.000 were issued against the Bank's Medium Term Notes Programme, and bonds worth €4.792.531.000 were issued against its Short Term Programme. Customer lending amounted to €3.074.471.470 (2007: €3.420.068.449). Net fee and commission income during the year totalled €9.363.791 (2007: €5.432.823).

No material risks relevant to the Bank arose during the course of the financial year.

No major events have occurred subsequent to the reporting date which could materially impact on the company's asset, earnings or financial situation.

The Bank does not own, nor has it acquired or disposed of during the year, any treasury shares or shares in the Parent company.

With respect to reporting requirements regarding the direction and co-ordination of MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A. it should be noted that accounts outstanding between the Bank, its Parent and other group companies are financial in nature and may be summarized as follows:

Parent company:	
Loans and advances to Mediobanca S.p.A.	€2.003.259.000
Due to Mediobanca S.p.A.	€3.341.430.000

In the forthcoming financial year, the Bank will carefully continue to develop its activities in the loan sector while keeping costs under control.

We propose the following allocation of Profits:

Profit for the year	€	14.370.238
Balance on retained earnings	€	-
Total profit to be allocated	**€**	**14.370.238**
To specific reserve for N.W.T.	€	2.500.000
To free reserves	€	11.870.238

pp. BOARD OF DIRECTORS
CHAIRMAN
(Mr. M. Di Carlo)

MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A.

Statement of Directors' responsibilities

To the best of our knowledge, the annual accounts of MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A. (the "Bank") give a true and fair view of the assets, liabilities, financial position and profit and loss of the Bank in accordance with applicable accounting standards. The Director's report includes a fair view of (i) the Bank's development, (ii) its position, and (iii) a description of the opportunities and risks relevant to the Bank that arose during the year ended June 30th, 2008.

Luxembourg, September 5th, 2008

The Board of Directors

Massimo Di Carlo	Luca Maccari	Peter W Gerrard
Silvio Perazzini	Stefano Pellegrino	Paolo Ponzanelli
Federico Potsios	Alex Schmitt	

Ernst & Young S.A.
7, Parc d'Activité Syrdall
L-5365 Munsbach
B.P. 780
L-2017 Luxembourg
Tel: +352 42 124 1
Fax: +352 42 124 5555
www.ey.com/luxembourg

R.C.Luxembourg B 47 771
TVA LU 16063074

Independent Auditor's report

To the Board of Directors of
MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A.
Luxembourg

Report on the annual accounts

Following our appointment by the Board of Directors, we have audited the accompanying annual accounts of MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A., which comprise the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' responsibility for the annual accounts

The Board of Directors is responsible for the preparation and fair presentation of these annual accounts in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of annual accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the "Réviseur d'Entreprises"

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted by the "Institut des Réviseurs d'Entreprises". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the judgement of the "Réviseur d'Entreprises", including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the "Réviseur d'Entreprises" considers internal control relevant to the entity's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Responsibility of the "Réviseur d'Entreprises" (continued)

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the annual accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the annual accounts give a true and fair view of the financial position of MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A. as of 30 June 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

The Directors' report, which is the responsibility of the Board of Directors, is consistent with the annual accounts.

ERNST & YOUNG
Société Anonyme
Réviseur d'Entreprises

Sylvie TESTA

5 September 2008

MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A.
Société Anonyme

Balance sheet
As of 30 June 2008
(expressed in EUR)

ASSETS	Note	30 June 2008	30 June 2007
Cash and cash balances with central banks	4	19.584.145	37.436.483
Financial assets held for trading	5, 31	110.499.435	36.676.002
Derivatives		105.549.464	31.419.331
Debt instruments		4.949.971	5.256.671
Loans and advances	6	5.344.621.977	6.645.076.459
Loans and advances to credit institutions	31	2.270.150.507	3.225.008.010
Loans and advances to customers		3.074.471.470	3.420.068.449
Derivatives held for hedging	7, 31	20.878.405	3.493.227
Tangible assets	8	38.810	49.406
Intangible assets	8	---	24.000
Tax assets	15	30.223.891	12.490.699
of which: deferred tax assets		30.223.891	12.490.699
Other assets	9, 31	609.275	905.098
Total assets		**5.526.455.938**	**6.736.151.374**

LIABILITIES	Note	30 June 2008	30 June 2007
Financial liabilities held for trading	10, 31	105.549.264	28.730.292
Derivatives		105.549.264	28.730.292
Amounts due to credit institutions	11, 31	3.450.719.939	3.781.690.853
of which: subordinated debts (Tier 2 funds)		39.256.114	39.260.259
Amounts due to customers	12	35.214.379	---
Debt securities in issue	13	1.751.774.370	2.786.820.873
Derivatives held for hedging	14, 31	36.956.408	30.886.204
Tax liabilities	15	34.784.637	14.356.489
of which: deferred tax liabilities		30.708.413	13.139.954
Other liabilities	16, 31	9.467.191	6.047.151
Total liabilities		**5.424.466.188**	**6.648.531.862**
SHAREHOLDERS' EQUITY			
Share capital	17	10.000.000	10.000.000
Reserves	18	77.619.512	67.653.008
Profit brought forward	18	---	969.803
Profit for the year		14.370.238	8.996.701
Total shareholders' equity		**101.989.750**	**87.619.512**
Total liabilities and shareholders' equity		**5.526.455.938**	**6.736.151.374**

The accompanying notes form an integral part of these annual accounts.

MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A.
Société Anonyme

Income statement

For the year ended 30 June 2008
(expressed in EUR)

	Note	30 June 2008	30 June 2007
Net interest income	20		
Interest and similar income	21, 31	313.459.979	184.934.348
Interest expenses and similar charges	22, 31	-302.486.807	-180.292.243
		10.973.172	**4.642.105**
Net fee and commission income	23		
Fee and commission income		19.449.035	13.635.776
Fee and commission expenses	31	-10.085.244	-8.202.953
		9.363.791	**5.432.823**
Net gains and losses on financial assets and liabilities held for trading	24, 31	**760.283**	**418.561**
Net gains and losses from hedge accounting	25, 31	**-248.783**	**2.705.256**
Foreign exchange differences		**-912.935**	**-802.540**
Net other operating income/expenses			
Other operating income		56.641	69.343
Other operating expenses		-130	---
		56.511	**69.343**
Administrative expenses	26, 28, 30, 31	**-2.465.920**	**-1.705.246**
Depreciation			
Tangible assets		-16.925	-16.402
Intangible assets		-24.000	-8.000
		-40.925	**-24.402**
Profit before tax		**17.485.194**	**10.735.900**
Income tax expenses	15	**-3.114.956**	**-1.739.199**
Net profit for the year		**14.370.238**	**8.996.701**

The accompanying notes form an integral part of these annual accounts.

MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A.
Société Anonyme

Statement of changes in equity
For the year ended 30 June 2008
(expressed in EUR)

	Balance at 30 June 2007	Allocation of the profits	Profit for the year ended 30 June 2008	Balance at 30 June 2008
Share capital:				
a) ordinary shares	10.000.000	---	---	10.000.000
b) other shares	---	---	---	---
Profit brought forward	969.803	-969.803	---	---
Reserves:				
a) Legal reserve (1)	1.000.000	---	---	1.000.000
b) Free reserves	64.511.008	8.029.754	---	72.540.762
c) Special reserves (2)	1.925.000	1.936.750	---	3.861.750
d) FTA reserves	217.000	---	---	217.000
Net profit for the year	8.996.701	-8.996.701	14.370.238	14.370.238
Net equity	**87.619.512**	**---**	**14.370.238**	**101.989.750**

	Balance at 30 June 2006	Allocation of the profits	Profit for the year ended 30 June 2007	Balance at 30 June 2007
Share capital:				
a) ordinary shares	10.000.000	---	---	10.000.000
b) other shares	---	---	---	---
Profit brought forward	1.897.187	-927.384	---	969.803
Reserves:				
a) Legal reserve (1)	---	1.000.000	---	1.000.000
b) Free reserves	63.100.000	1.411.008	---	64.511.008
c) Special reserves (2)	---	1.925.000	---	1.925.000
d) FTA reserves	217.000	---	---	217.000
Net profit for year	3.408.624	-3.408.624	8.996.701	8.996.701
Net equity	**78.622.811**	**---**	**8.996.701**	**87.619.512**

(1) Luxembourg law (see note 18)
(2) Reserves linked to exoneration of Net Wealth Tax charge subject to conditions (see note 18)

MEDIOBANCA INTERNATIONAL (LUXEMBOURG) S.A.
Société Anonyme

Cash flow statement

For the year ended 30 June 2008
(expressed in EUR'000)

		Amount	
A.	CASH FLOW FROM OPERATING ACTIVITIES	**30 June 2008**	**30 June 2007**
1.	**Operating activities**	**42.103**	**20.948**
	– interest received	328.663	169.301
	– interest paid	-295.051	-153.541
	– net fee and commission received	10.927	7.246
	– cash payments to employees	-702	-611
	– other expenses paid	-1.734	-1.447
2.	**Cash generated/(absorbed) by financial assets**	**1.330.886**	**- 5.234.765**
	– amounts due from customers	475.755	-2.970.118
	– amounts due from banks: on demand	1.343.251	-1.435.843
	– amounts due from banks: other	-487.840	-828.270
	– other assets	-280	-534
3.	**Cash (generated)/absorbed by financial liabilities**	**-1.372.983**	**5.174.569**
	– amounts due to banks: on demand	---	3.290.867
	– amounts due to banks: other	-296.504	---
	– amounts due to clients	-30.552	---
	– debt securities in issue	-1.044.253	1.877.702
	– other liabilities	-1.674	6.000
	Net cash flow (outflow) from operating activities	**6**	**-39.248**
B.	CASH FLOW FROM INVESTMENT ACTIVITIES		
	Cash absorbed by	**-7**	**-1**
	– acquisitions of tangible assets	-7	-1
	Net cash flow (outflow) from investment activities	**-7**	**-1**
C.	FUNDING ACTIVITIES		
	– issues/purchases of subordinated debts	---	39.250
	Net cash flow (outflow) from funding activities	---	39.250
	Net cash flow (outflow) during year	**-1**	**1**

RECONCILIATION

	Amount	
	30 June 2008	**30 June 2007**
Cash and cash equivalents: balance at 1 July	1	---
Total cash flow (outflow) during year	-1	1
Cash and cash equivalents: exchange rate effect	---	---
Cash and cash equivalents: balance at 30 June	---	1

The accompanying notes form an integral part of these annual accounts.

Notes to the annual accounts
As of 30 June 2008

Note 1 – Corporate information

Corporate matters

Mediobanca International (Luxembourg) S.A. (the "Bank") was incorporated under the name of "Mediobanca International Limited" on 13 September 1990 under the Companies Law of the Cayman Islands, with its registered office at Ugland House, South Church Street, P.O. Box 309 George Town, Grand Cayman, Cayman Islands, British West Indies.

On 21 December 2005, the shareholders of the Bank decided to transfer the registered office and the principal establishment of the Bank from the Cayman Islands to the Grand-Duchy of Luxembourg and declared that the Bank had accordingly adopted the Luxembourg nationality. In addition, the shareholders of the Bank decided to adopt the form of "Société Anonyme" and to change the name of the Bank into Mediobanca International (Luxembourg) S.A..

Nature of the Bank's business

The activities of the Bank are:

- Raising funds on international markets, via the issuance of bonds and other financial instruments.
- Corporate lending operations serving corporate clients, either directly or by participating in syndicated lending. All corporate lending is fully guaranteed by the Parent company or SACE (Italian economic public agency).

Outsourcing

Since inception, the Bank has outsourced a significant part of its activities to the Parent company under the terms of a servicing contract.

Annual accounts

The Bank's financial year runs from 1 July to 30 June.

The annual accounts were authorised for issue by the Bank's Board of Directors on 5 September 2008.

Parent company

The Bank is a wholly-owned subsidiary of Mediobanca - Banca di Credito Finanziaria S.p.A. (hereafter "Mediobanca S.p.A."), having its registered office in Piazzetta Enrico Cuccia n. 1, Milan, Italy. The annual accounts of the Bank are included in the consolidated financial statements of Mediobanca S.p.A..

Note 2 – Significant accounting policies

(a) Statement of compliance

The annual accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the relative interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as adopted for use in the European Union (EU).

(b) Change in accounting policies

The accounting policies adopted are consistent with those used in the previous financial year except as follows. Only accounting policies and disclosures applicable or potentially applicable to the Bank are mentioned below.

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Bank's accounting periods beginning on or after 1st January 2007 or later periods and which the Bank is adopting for the first time for the year ended 30 June 2008:

- IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1st January 2007): the Standard requires banks to make disclosures that enable users to assess the significance, the nature and extent of risks arising from the Bank's financial instruments. For comparison purposes, the Bank also provided the respective information related to IFRS 7 also for the accounting year ended 30 June 2007.
- Amendment to IAS 1: Presentation of Financial Statements (effective for annual periods beginning on or after 1st January 2007): this amendment requires banks to make new disclosures to enable users of the financial statements to assess the Bank's objectives, policies and processes for managing capital.
- IFRIC 9: Reassessment of embedded derivatives: this standard was issued in March 2006, and becomes effective for financial years beginning on or after 1 June 2006. This interpretation establishes that the date to assess the existence of an embedded derivative is the date an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows.

Note 2 – Significant accounting policies (continued)

(b) Change in accounting policies (continued)

Certain standards have been issued but are not yet effective:

- IAS 27R: Consolidated Financial Statements: this standard is applicable for annual periods beginning on or after 1 July 2009 and must be adopted simultaneously with the adoption of IFRS 3R. The revised IAS 27 will require entities to account for changes in the ownership of a subsidiary, which does not result in the loss of control, as an equity transaction and therefore will not give rise to a gain or loss in income. In addition losses incurred by a subsidiary will be required to be allocated between the controlling and non-controlling interests, even if the losses exceed the non-controlling equity investment in the subsidiary. Finally on loss of control of a subsidiary, entities will be required to re-measure to fair value any retained interest, which will impact the gain or loss recognised on the disposal linked to the loss of control.
- IAS 32: Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation: these amendments to IAS 32 and IAS 1 were issued in February 2008 and become effective for annual periods beginning on or after 1 January 2009. The amendments allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfil a number of specified features.

(c) Basis of preparation

The annual accounts are prepared on the historical cost basis except for financial instruments held for trading, for derivatives held for hedging and for hedged items under fair value hedge that are measured at fair value.

The balance sheet, income statement, statement of changes in equity and the cash flow statement are presented in Euro. Notes to the annual accounts are presented in euros unless otherwise stated.

The preparation of annual accounts in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expense items. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Note 2 – Significant accounting policies (continued)

(d) Financial assets other than derivatives

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRS that have significant effect on the annual accounts and estimates with a significant risk of material adjustments in the next year are developed in note 3.

(i) Classification

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and advances, held-to-maturity financial assets, and available-for-sale financial assets.

<u>Financial assets at fair value through profit or loss</u>

Included in this category are debt securities and equities which have been acquired principally for the purpose of selling or repurchasing in the near term. As of 30 June 2008 and 2007, the Bank did not apply the amended fair-value option of IAS 39.

<u>Held-to-maturity financial assets</u>

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. Were the Group to sell other than an insignificant amount of held-to-maturity financial assets, the entire category would be required to be reclassified as available-for-sale.

As of 30 June 2008 and 2007, the Bank did not use this category of financial assets.

<u>Loans and advances</u>

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money, goods or services directly to a debtor with no intention of trading the receivable.

<u>Available-for-sale financial assets</u>

Available-for-sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

As of 30 June 2008 and 2007, the Bank did not use this category of assets.

Note 2 – Significant accounting policies (continued)

(d) Financial assets other than derivatives (continued)

(ii) Initial recognition and subsequent measurement

Purchases of financial assets at fair value through profit or loss, held-to-maturity and available-for-sale are recognised on value-date. Loans are recognised when cash is advanced to the borrowers.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and advances and held-to-maturity investments are carried at amortised cost using the effective interest method less impairment. The interest calculated using the effective interest method is recognised in the income statement.

Gains and losses arising from changes in the fair value of the financial assets measured at fair value through profit or loss are included in the income statement in the period in which they arise.

Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss.

Changes in fair value of financial assets held for trading are included in the income statement.

(iii) Derecognition

A financial asset (or, where applicable, a part of a financial asset or a part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Note 2 – Significant accounting policies (continued)

(d) Financial assets other than derivatives (continued)

(iii) Derecognition (continued)

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

(e) Financial liabilities other than derivatives

(i) Classification

The Bank classifies its financial liabilities other than derivatives in the following categories: Financial liabilities measured at amortised cost and Financial liabilities at fair value through profit or loss.

As of 30 June 2008 and 2007, the fair value option was not used.

(ii) Initial recognition and subsequent measurement

Interest-bearing liabilities - other than financial liabilities held for trading - are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing liabilities are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Financial liabilities at fair value through profit or loss are measured at fair value through the income statement.

(iii) Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Note 2 – Significant accounting policies (continued)

(f) Derivative financial instruments

(i) Classification

Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Gains and losses on investments held for trading are recognised in the income statement. The Bank assesses whether embedded derivatives are required to be separated from the host contracts when the Bank becomes party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

(ii) Initial recognition and subsequent measurement

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are restated at fair value. The method of recognising the resulting fair value gain or loss depends on whether the derivatives are designated as a hedging instrument, and if so, the nature of the item being hedged.

Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

(iii) Trading

Derivatives that do not qualify for hedge accounting are accounted for as trading instruments. The gain or loss on remeasurement to fair value of trading derivatives is recognised immediately in the income statement.

(iv) Hedging

The Bank uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. Where there is a hedging relationship between a derivative instrument and a related item being hedged, the hedging instrument is measured at fair value. The treatment of any resulting gains and losses is set out below.

Note 2 – Significant accounting policies (continued

(f) Derivative financial instruments (continued)

(iv) Hedging (continued)

A hedging relationship exists where:

- at the inception of the hedge there is formal documentation of the hedge;
- the hedge is expected to be highly effective;
- the effectiveness of the hedge can be reliably measured;
- the hedge is highly effective throughout the reporting period; and
- for hedges of a forecasted transaction, the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect net profit or loss.

Fair value hedge

Where a derivative financial instrument hedges the exposure to changes in the fair value of a recognised asset or liability, the hedged item is stated at fair value in respect of the risk being hedged. Gains or losses on remeasurement of both the hedging instrument and the hedged item are recognised in the income statement. These amounts are included in the caption "Net gains and losses from hedge accounting".

Cash flow hedge

Where a derivative financial instrument hedges the exposure to variability in the cash flows of recognised assets or liabilities (or homogeneous groups/portfolios thereof) or anticipated transactions or firm commitments, the effective part of any gain or loss on remeasurement of the hedging instrument is recognised directly in equity. The ineffective part of any gain or loss is recognised in the income statement.

When a hedged anticipated transaction or firm commitment results in the recognition of an asset or liability, the cumulative gain or loss on the hedging instrument recognised in equity is removed from equity and included in the initial measurement of the asset or liability. Otherwise the cumulative gain or loss recognised in equity is transferred to the income statement at the same time that the hedged transaction affects net profit or loss and included in the same line item as the hedged transaction.

When a hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss recognised in equity remains in equity and is recognised in accordance with the above policy. If the hedged transaction is no longer expected to occur, the cumulative gain or loss recognised in equity is recognised in the income statement immediately.

As at 30 June 2008 and 2007, the Bank has no cash flow hedged transactions.

Note 2 – Significant accounting policies (continued)

(g) Repurchase agreements and reverse repurchase agreements

The Bank enters into purchases (sales) of investments under agreements to resell (repurchase) substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognised. The amounts paid are recognised in loans to either banks or customers. The advances are shown as collateralized by the underlying security. Investments sold under repurchase agreements continue to be recognized in the balance sheet and are measured in accordance with the accounting policy of the category to which they relate. The proceeds from the sale of the investments are reported as liabilities to either banks or customers.

The difference between the sale and repurchase considerations is recognised on an accrual basis over the period of the transaction and is included in interest.

As at 30 June 2008 and 2007, the Bank did not enter into repurchase agreements or reverse repurchase agreements.

(h) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when the Bank has a legally enforceable right to offset the recognised amounts and the transactions are intended to be settled on a net basis or realise the asset and settle the liability simultaneously.

(i) Impairment of financial assets

The Bank assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Indicators of impairment include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Bank has granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties.

Note 2 – Significant accounting policies (continued)

(i) Impairment of financial assets (continued)

In addition, objective evidence of impairment for an investment in an equity instrument includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment.

The recoverable amount of the Bank's investments in held-to-maturity securities and loans and advances carried at amortised cost is estimated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Advances with a short duration are not discounted.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss shall be reversed, with the amount of the reversal recognised in the income statement.

In addition, the Bank proceeds with an estimation of a potential collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This takes into consideration factors such as deterioration in country risk, industry and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

As of 30 June 2008 and 2007, the Bank has not recorded any collective impairment.

Note 2 – Significant accounting policies (continued)

(j) Tangible assets

The Bank recognises the cost of replacing part of a property, plant and equipment item at incurrence in the carrying amount of this item if that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Bank and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment. The depreciation rate used is 20%.

The residual value, if not insignificant, and useful lives are reassessed annually and adjusted, if appropriate.

(k) Intangible assets

Intangible assets, mainly composed of software acquired by the Bank, are stated at cost less accumulated amortisation and impairment losses.

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. Other intangible assets comprise acquired software, including developments costs and are amortised from the date they are available for use over their estimated useful (5 years).

(l) Other assets

Other assets are stated at cost less impairment.

Note 2 – Significant accounting policies (continued)

(m) Impairment of non financial assets

The carrying amounts of the Bank's assets, except deferred income tax assets and financial assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement. The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

As of 30 June 2008 and 2007, the Bank has not booked any impairment on non financial assets.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand and short-term highly liquid investments with maturities of three months or less when purchased.

(o) Pension plans

As of 30 June 2008, the Bank has put in place a defined contribution plan. The Bank has no defined benefit obligation regarding post employee benefit to be recognised under IAS 19.

(p) Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and when a reliable estimate can be made of the amount of the obligation. Where the Bank expects part or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as interest expense.

As of 30 June 2008 and 2007, the Bank has not booked any provisions.

Note 2 – Significant accounting policies (continued)

(q) Other liabilities

Other liabilities are stated at cost.

(r) Interest income and expenses

For all instruments measured at amortised cost, interest income and expenses are recognised in the income statement as they accrue, taking into account the effective yield of the asset and the liability or an applicable floating rate. Interest income and expenses include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

(s) Fee and commission income

Fee and commission income arises on financial services provided by the Bank. Fee and commission income is recognised when the corresponding service is provided.

(t) Net gains and losses on financial assets and liabilities held for trading

Gains and losses on financial instruments measured at fair value through profit or loss includes gains and losses arising from disposals and changes in the fair value of financial assets and liabilities held for trading or designated at fair value through profit and loss.

(u) Taxes

Income tax on the income statement for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

(i) Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Note 2 – Significant accounting policies (continued)

(u) Taxes (continued)

(ii) Deferred tax

Deferred income tax is provided using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Note 2 – Significant accounting policies (continued)

(u) Taxes (continued)

(ii) Deferred tax (continued)

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(v) Foreign currency translation

The annual accounts are presented in euro (EUR), which is the Bank's functional and presentation currency.

Foreign currency transactions are translated at the exchange rate prevailing on the date of the transaction.

Monetary assets and liabilities denominated in currencies other than in euro are translated into euro at the exchange rate prevailing at the balance sheet date. The gain or loss arising from such translation is recorded in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(w) Reclassification of prior year figures

Where necessary, certain prior year figures have been reclassified to conform with changes to the current year's presentation for comparative purpose.

These reclassifications relate to the following captions: tax assets, other assets, tax liabilities, interest and similar income, interest expenses and similar charges, net gains and losses on financial assets and liabilities held for trading, net gains and losses from hedge accounting and foreign exchange differences.

Note 3 – Accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimation of fair values of financial instruments

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

(i) Securities

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

(ii) Derivatives

The fair value of derivatives is calculated, for listed instruments, on the basis of market prices ruling at the reporting date. When market prices are not available and/or reliable, valuation methods and models are used based on market-derived data (e.g. valuation of listed instruments with similar characteristics, discounted cash flow analysis, option price calculation methods, or valuation used in comparable transactions). Equities and linked derivatives for which it is not possible to reliably determine fair value using the methods described above, are stated at cost.

When discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the balance sheet date. Where other pricing models are used, inputs are based on market related data at the balance sheet date.

(iii) Interest-bearing loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows.

(iv) Other financial assets / liabilities

For receivables / payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables / payables are discounted to determine the fair value.

Note 3 – Accounting estimates and judgments (continued)

(b) Impairment

Assets are subjected to impairment tests at annual reporting dates. In determining whether an impairment loss should be recognised, the Bank makes judgements to ascertain whether there is any objective evidence that a financial asset or group of financial assets is impaired. If there is evidence of a long-term reduction in the value of the asset concerned, this is recognized in profit and loss account on the basis of market prices in the case of listed instruments, and of estimated future cash flows discounted according to the original effective interest rate in the case of unlisted instruments. If the reasons for which the loss was recorded subsequently cease to apply, the impairment is written back to profit and loss accounts.

(c) Deferred taxes

Provisions for income taxes have been calculated on the basis of current, advance and deferred obligations. Advance and deferred tax are calculated on the basis of temporary differences - without time limits - between the carrying amount of an asset or liability and its tax base. Deferred income tax assets and liabilities have been stated using the assumptions that the deferred income tax assets and liabilities are determined by reference to Luxembourg accounting principles.

Note 4 – Cash and cash balances with central banks (in EUR'000)

	30 June 2008	**30 June 2007**
Petty cash	---	1
Cash balances with central bank	19.584	37.435
Total	**19.584**	**37.436**

Credit institutions established in Luxembourg are required to hold minimum reserves with the Luxembourg Central Bank. These deposits represent 2% of some of their liabilities. Compliance with the reserve requirement is determined on the basis of the institutions' average daily reserve holdings over the maintenance period, thus reserves of credit institutions can vary from one day to another following their treasury management, the money market or their expectations in interest rates.

Mandatory reserve deposits with the central bank are not used in the Bank's day to day operations.

Note 5 – Financial assets held for trading (in EUR'000)

Fair values	**30 June 2008**			**30 June 2007**		
	Listed	Unlisted	Total	Listed	Unlisted	Total
Debt instruments	4.950	---	4.950	5.257	---	5.257

Note 5 – Financial assets held for trading (in EUR'000) (continued)

	30 June 2008				**30 June 2007**			
	Listed		Unlisted		Listed		Unlisted	
Type of derivatives	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
Interest rate swaps	---	---	---	---	---	---	24.876	3.663
Derivatives on interest rates	---	---	339.820	101.453	---	---	186.449	26.848
Credit default swaps	---	---	110.000	4.096	---	---	110.000	908
Total	**---**	**---**	**449.820**	**105.549**	**---**	**---**	**321.325**	**31.419**

Note 6 – Loans and advances (in EUR'000)

Total net carrying amounts	**30 June 2008**	**30 June 2007**
Unquoted loans and advances to:		
- Credit institutions	2.270.151	3.225.008
- Corporate customers	3.074.471	3.420.068
	5.344.622	**6.645.076**

Impairment allowance for loans and advances

As of 30 June 2008 and 2007, the Bank has not booked any specific and/or collective impairment on its lending portfolio.

Guarantees received as collateral

Loans and advances are secured by the following guarantees received by the Bank:

Total net carrying amounts	**30 June 2008**	**30 June 2007**
Loans and advances to credit institutions secured by :		
- Central banks and EU Governments	201.689	5.216
- Credit institutions	65.052	274.658
Loans and advances to customers secured by :		
- Credit institutions	3.074.471	3.420.068
- Other real guarantees	2.043	2.043

Note 7 – Derivatives held for hedging – Assets (in EUR'000)

The Bank has entered into interest rate swaps contracts for a global notional amount of EUR'000 149.751 to hedge interest rate risk relating to financial liabilities. The transaction qualifies for hedge accounting and is accordingly treated as a fair value hedge; the fair value of the swaps amounts to EUR'000 20.878 as at 30 June 2008 (30 June 2007: EUR'000 3.493).

	30 June 2008				**30 June 2007**			
	Listed		Unlisted		Listed		Unlisted	
Type of derivatives	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
Derivatives on interest rates	---	---	149.751	20.878	---	---	95.399	3.493
Total	**---**	**---**	**149.751**	**20.878**	**---**	**---**	**95.399**	**3.493**

Note 8 – Movements in tangible and intangible assets (in EUR'000)

Intangible assets consist of software licenses and are fully depreciated as of 30 June 2008.

The following movements have occurred in the Bank's fixed assets during the financial year:

Tangible and intangible assets	Gross value at the beginning of the financial year	Additions	Disposals	Gross value at the end of the financial year	Accumulated depreciation	Net carrying amount as at 30 June 2008
1. Intangible assets	**40**	**---**	**---**	**40**	**-40**	**---**
2. Tangible assets	**81**	**7**	**---**	**88**	**-49**	**39**
of which:						
Other fixtures and fittings, tools and equipment	81	7	---	88	-49	39

Note 9 – Other assets (in EUR'000)

	30 June 2008	**30 June 2007**
- Withholding tax	343	785
- Value added tax	31	47
- Other	235	73
Total	**609**	**905**

Note 10 – Financial liabilities held for trading (in EUR'000)

	30 June 2008				**30 June 2007**			
	Listed		**Unlisted**		**Listed**		**Unlisted**	
Type of derivatives	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
Interest rate swaps	---	---	---	---	---	---	22.214	974
Derivatives on interest rates	---	---	339.820	101.453	---	---	186.449	26.848
Credit default swaps	---	---	110.000	4.096	---	---	110.000	908
Total	**---**	**---**	**449.820**	**105.549**	**---**	**---**	**318.663**	**28.730**

Note 11 – Amounts due to credit institutions (in EUR'000)

	30 June 2008	**30 June 2007**
Loans with agreed maturity	3.450.720	3.781.691
Total	**3.450.720**	**3.781.691**

As of 30 June 2008, amounts due to the Parent company are EUR'000 3.380.686 (2007: EUR'000 3.697.206), of which EUR'000 39.256 relates to the issue of a perpetual subordinated debt assimilated to T2 capital.

At the reference date, the Bank holds among the caption "Amounts due to credit institutions" schuldscheins subscribed by third credit institutions, which have been hedged by interest rate swaps under fair value hedge. The fair values of the hedged items are as follows:

	30 June 2008	**30 June 2007**
Amounts due to credit institutions: Fair Value Hedge		
a) Interest rate risk	109.344	---
b) Currency risk	---	---
c) Other risks	---	---
Total	**109.344**	**---**

Note 12 – Amounts due to customers (in EUR'000)

As of 30 June 2008 and 2007, they are composed of:

	30 June 2008	**30 June 2007**
- Time deposits	8.200	---
- Loans	27.014	---
Total	**35.214**	**---**

Note 12 – Amounts due to customers (in EUR'000) (continued)

At the reference date, the Bank holds among the caption "Amount due to customers" schuldscheins subscribed by third parties, which have been hedged by interest rate swaps under fair value hedge. The fair values of the hedged items are as follows:

	30 June 2008	30 June 2007
Amount due to customers: Fair Value Hedge		
a) Interest rate risk	27.014	---
b) Currency risk	---	---
c) Other risks	---	---
Total	**27.014**	**---**

Note 13 – Debt securities in issue (in EUR'000)

As of 30 June 2008 and 2007, the debt securities in issue are composed of:

	30 June 2008	30 June 2007
A. Listed securities	**1.196.677**	**734.414**
Bonds		
- Structured	294.422	134.998
- Other	902.255	599.416
Other		
- Structured	-	-
- Other	-	-
B. Unlisted securities	**555.097**	**2.052.407**
Bonds		
- Structured	17.314	22.416
- Other	107.911	102.985
Other		
- Structured	-	-
- Other	429.872	1.927.006
Total	**1.751.774**	**2.786.821**

All the bonds issued by the Bank are non convertible bonds.

Note 13 – Debt securities in issue (in EUR'000) (continued)

At the reference date, the Bank holds among the caption "Debt securities in issue" notes, which have been hedged by financial instruments classified under fair value hedge. These debt securities in issue are composed as follows:

	30 June 2008	30 June 2007
Debt securities: Fair Value Hedge		
a) Interest rate risk	368.165	213.951
b) Currency risk	---	---
c) Other risks	---	---
Total	**368.165**	**213.951**

Debt securities in issue measured at amortised cost are composed as follows:

	30 June 2008	30 June 2007
1. Debt securities	**953.737**	**645.864**
a) Structured	147.943	90.985
b) Other	805.794	554.879
2. Other financial instruments	**429.872**	**1.927.006**
a) Structured	---	---
b) Other	429.872	1.927.006
Total	**1.383.609**	**2.572.870**

Notes to the annual accounts (continued)
As of 30 June 2008

Note 14 – Derivatives held for hedging (in EUR'000)

	30 June 2008				30 June 2007			
	Listed		**Unlisted**		**Listed**		**Unlisted**	
Type of derivatives	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
1) Derivatives on interest rates	---	---	357.825	34.834	---	---	196.796	30.886
2) Cross currency interest rate swaps	---	---	19.003	2.122	---	---	---	---
Total	**---**	**---**	**376.828**	**36.956**	**---**	**---**	**196.796**	**30.886**

Note 14 – Derivatives held for hedging (in EUR'000) (continued)

Classification per items and risks covered

Hedged items	Fair Value Hedge				
	Specific				Generic
	Interest risk	Currency risk	Credit risk	Other risks	
Financial liabilities	36.956	---	---	---	---
Total	**36.956**	---	---	---	---

Note 15 – Tax expenses, assets and liabilities (in EUR'000)

The Bank is liable for all taxes to which the credit institutions are subject to in Luxembourg. The Bank opts for the exoneration of the net wealth tax charge of EUR 452.800 (30 June 2007: EUR 387.350) provided the following conditions are fulfilled:

(1) A reserve equivalent to 5 times the net wealth tax liability is created. A new reserve has to be created each year. This requires a decision of the general shareholders' meeting and this reserve has to appear in the balance sheet. If the profit of the year is not sufficient to create the reserve, it is possible to transfer the profit of the preceding years to create such reserve.

(2) This reserve is maintained for a period of at least 5 years after the year of the credit.

The amount of net wealth tax that can be reduced is the lower of net wealth tax and corporate income tax before tax credits, and the reduction will be equalled to one fifth of the reserve booked.

The income tax expenses is composed as follows (in EUR'000):

	30 June 2008	**30 June 2007**
Current tax expenses	3.280	1.090
Deferred tax income	-165	649
Total	**3.115**	**1.739**

Note 15 – Tax expenses, assets and liabilities (in EUR'000) (continued)

Current tax liabilities

Their changes over the year are as follows (in EUR'000):

	Corporate income tax (IRC)	Municipal Business Tax (ICC)	Total
Balance at the beginning of the year	**863**	**354**	**1.217**
Increase			
Charges of the year	2.534	746	3.280
Transfers	---	---	---
Other	---	---	---
Decrease			
Payments / Advances	320	100	420
Transfers	---	---	---
Other	---	---	---
Balance as of 30 June 2008	**3.077**	**1.000**	**4.077**

Deferred income tax assets and liabilities (in EUR'000)

	30 June 2008	30 June 2007
Deferred income tax assets	30.224	12.491
Deferred income tax liabilities	-30.708	-13.140
Net	**-484**	**-649**

Deferred income tax assets and deferred income tax liabilities are attributable to the following (in EUR'000):

	1July 2007	Income statement	30 June 2008
Financial assets held for trading	-5.490	-9.089	-14.579
Loans and advances	272	1.045	1.317
Derivatives held for hedging - Assets	-829	-5.346	-6.175
Financial liabilities held for trading	5.490	9.089	14.579
Due to credit institutions and customers	---	3.031	3.031
Securities in issue	-5.923	-3.142	-9.065
Derivatives held for hedging - Liabilities	5.831	5.466	11.297
Provisions	---	-889	-889
Net deferred income tax assets/(liabilities)	**-649**	**165**	**-484**

Notes to the annual accounts (continued)
As of 30 June 2008

Note 16 – Other liabilities (in EUR'000)

	30 June 2008	30 June 2007
- Invoices pending settlement	184	44
- Salary related contributions	9	3
- Other	7.600	-
- Income received in advance	1.674	6.000
Total	**9.467**	**6.047**

EUR'000 7.600 refers to retrocessions to the Parent company in the context of the lending activity.

Note 17 – Subscribed capital

On 21 December 2005, the shareholders of the Bank decided to transfer the registered office and the principal establishment of the Bank from the Cayman Islands to the Grand-Duchy of Luxembourg and declared that the Bank had accordingly adopted the Luxembourg nationality. In addition, the shareholders of the Bank decided to adopt the form of "Société Anonyme", to change the name of the Bank to Mediobanca International (Luxembourg) S.A. and to restructure the capital of the Bank by replacing the 10 million shares with a par value of EUR 1 with 1 million shares with a par value of EUR 10, all of the shares being fully subscribed by Mediobanca Group. As of 21 December 2005, the share capital of the Bank amounted to EUR 10.000.000 and was divided into 1 million shares of a par value of EUR 10 each.

As of 30 June 2008 and 2007, the share capital of the Bank amounts to EUR 10.000.000 and is divided into 1 million shares with a par value of EUR 10 each.

Note 18 – Reserves and profit brought forward

Profit brought forward as of 30 June 2007 has been fully allocated to reserves by the general shareholders meetings held on October 2007.

Under Luxembourg law an amount equal to at least 5% of the net profit must be allocated to a legal reserve until such reserve equals 10% of the issued share capital. This reserve is not available for dividend distribution. The full allocation of 10% of share capital was effected in the allocation of profits following the Board of Directors resolution of 16 October 2006.

As of 30 June 2008 and 2007, the Bank has opted for the exoneration of the net wealth tax charge provided that the following conditions have been respected:

- A reserve equivalent to 5 times the net wealth tax liability is recorded following the decision of the Shareholders meeting;
- The reserve will be maintained for a period at least of five years.

Note 19 – Assets and liabilities denominated in foreign currency

At 30 June 2008, the aggregate amount of the Bank's assets denominated in currencies other than EUR, translated into EUR amounts to EUR 804.700.711 (30 June 2007: EUR 1.599.456.761).

At 30 June 2008, the aggregate amount of the Bank's liabilities denominated in currencies other than EUR, translated into EUR amounts to EUR 806.652.112 (30 June 2007: EUR 1.573.214.946).

Note 20 – Net interest income (in EUR'000)

	30 June 2008	30 June 2007
Loans and advances	293.044	172.672
Other	20.416	12.262
Total interest income and similar income	**313.460**	**184.934**
Loans and deposits	171.098	77.882
Debt securities in issue	117.021	94.382
Other	14.368	8.028
Total interest expenses and similar charges	**302.487**	**180.292**
Net interest income	**10.973**	**4.642**

Note 21 – Interest and similar income (in EUR'000)

	Performing assets			Non performing assets	30 June 2008	30 June 2007
	Securities	Loans	Other financial assets			
1. Financial assets held for trading	306	---	---	---	306	310
2. Loans and advances to credit institutions	---	65.161	63.963	---	129.124	94.992
3. Loans and advances to customers	---	163.920	---	---	163.920	77.681
4. Hedging derivatives	---	---	20.110	---	20.110	11.943
5. Other assets	---	---	---	---	---	8
Total	306	229.081	84.073	---	313.460	184.934

Notes to the annual accounts (continued)
As of 30 June 2008

Note 22 – Interest expenses and similar charges (in EUR'000)

	Debts	Notes	Other liabilities	30 June 2008	30 June 2007
1. Amounts due to credit institutions	168.977	-	-	168.977	77.882
2. Amounts due to customers	2.121	-	-	2.121	-
3. Debt securities in issue	-	117.021	-	117.021	94.382
4. Hedging derivatives	-	-	14.301	14.301	8.028
5. Other liabilities	-	-	67	67	-
Total	**171.098**	**117.021**	**14.368**	**302.487**	**180.292**

Note 23 – Net fee and commission income (in EUR'000)

	30 June 2008	30 June 2007
Loans and advances to customers	18.727	13.072
Other	722	564
Total fee and commission income	**19.449**	**13.636**
Guarantees received	9.307	6.111
Other	778	2.092
Total fee and commission expenses	**10.085**	**8.203**
Net fee and commission income	**9.364**	**5.433**

Note 24 – Net gains and losses on financial assets and liabilities held for trading (in EUR'000)

	Financial assets other than derivatives	**Financial derivatives**	**30 June 2008**	**30 June 2007**
Interests				
Interest income	---	133	133	1.257
Interest expenses	---	-122	-122	-1.277
Interests	**---**	**11**	**11**	**-20**
Realised gains/losses on bonds	838		838	---
Unrealised gains/losses				
Unrealised gains				
Derivatives	---	64.838	64.838	1.272
Unrealised losses				
Bonds	-306	---	-306	-188
Derivatives	---	-64.621	-64.621	-645
Unrealised and realised gains/losses	**532**	**217**	**749**	**439**
Total	**532**	**228**	**760**	**419**

Note 25 – Net gains and losses from hedge accounting (in EUR'000)

	30 June 2008	**30 June 2007**
Gains due to:		
- "Fair value hedging" derivatives	20.169	13.684
- Hedged financial liabilities	27.781	4.923
Hedging income	**47.950**	**18.607**
Losses due to:		
- "Fair value hedging" derivatives	27.656	14.529
- Hedged financial assets	-	1.373
- Hedged financial liabilities	20.543	-
Hedging expenses	**48.199**	**15.902**
Total	**-249**	**2.705**

Note 26 – Administrative expenses (in EUR'000)

	30 June 2008	30 June 2007
A) Wages, salaries and fees		
1) Staff	211	156
- *Wages and salaries*	*188*	*138*
- *Social contributions*	*19*	*14*
- *Other expenses*	*4*	*4*
- Payment to external pension fund: defined contribution plan	13	---
- Expenses for seconded personnel	368	368
2) Other	125	90
Total wages, salaries and fees	**717**	**614**
B) Other administrative expenses		
- Advisory and audit fees	246	158
- Listing fees	67	22
- Marketing and promotion	1	2
- Renting charges	150	154
- Service providers	29	20
- *Couriers*	*5*	*4*
- *Telephone and web services*	*12*	*9*
- *Other*	*12*	*7*
- Stationery and printing	6	5
- Agency and travel expenses	41	9
- Membership subscription	18	17
- IT maintenance and software implementation	659	226
- Bank charges	42	79
- Outsourcing services	260	260
- Other	2	9
Total other expenses	**1.521**	**961**
c) Indirect taxation		
- VAT	228	130
Total indirect taxation	**228**	**130**
Total administrative expenses	**2.466**	**1.705**

Note 27 – Guarantees and commitments (in EUR'000)

The Bank's guarantees and commitments may be analyzed as follows:

	30 June 2008	30 June 2007
1. Financial guarantees given to:	**4**	**4**
a) Suppliers	4	4
2. Commercial guarantees of the same nature as credit	**36.090**	**42.108**
3. Irrevocable commitments to lend funds to:	**859.687**	**4.592.450**
a) Banks	30.143	4.429
i) specific	30.143	1.669
ii) stand-by basis	-	2.760
b) Customers	829.544	4.588.021
i) specific	829.544	669.490
ii) stand-by basis	-	3.918.531
Total	**895.781**	**4.634.562**

Unused confirmed credits and commercial guarantees for credit are secured by guarantees received by the Bank as follows:

Total net carrying amounts	**30 June 2008**	**30 June 2007**
Unused confirmed credits secured by :		
- Central banks and EU Governments	311	---
- Credit institutions	859.376	4.589.690
Commercial guarantees secured by :		
- Central banks and EU Governments	---	---
- Credit institutions	36.090	42.108

The Bank has also entered into certain other commitments which are not disclosed in the balance sheet:

The Bank is a member of the non-profit making organisation "Association pour la Garantie des Dépôts, Luxembourg" (AGDL) that was established on 25 September 1989. The articles of association of the AGDL were revised following a general meeting of Shareholders held on 14 December 2000.
The AGDL has as its sole objective the establishment of a mutual system for the guarantee of cash deposits for the benefit of customers of the member credit institutions of the Association and for claims arising from investment transactions in favour of investors with the credit institutions and investment firms which are members of the Association.

Note 27 – Guarantees and commitments (in EUR'000) (continued)

The guarantee of cash deposits and of claims arising from investment transactions in favour of clients, individuals and certain companies as defined by the regulations is limited to a maximum amount fixed at the equivalent value in all currencies of EUR 20 per cash deposit and EUR 20 per claim arising out of investment transactions.

If the guarantee is called, the annual payment to be made by each member is limited to 5% of Shareholders' equity.

Note 28 – Staff numbers

As at 30 June 2008 and 2007, the Bank's staff is as follows:

	30 June 2008	30 June 2007
Management – Senior	2	2
Management – Middle	3	3
Other staff	2	1
Total	7	6

As of 30 June 2008 and 2007, the Bank's Senior Management consists of 2 Managing Directors, who are not included on the Bank's payroll. Also, 1 member of the Middle Management is not included directly on the Bank's payroll but is on secondment from the Parent company.

Note 29 – Risk management

(a) Market Risk: qualitative information

The risk policy of the Group consists in concentrating risks at the Parent company's level where a risk management system monitors market risks on a daily basis. The system calculates value at risk (VaR) for the Bank's entire trading and investment portfolios. Such global measurement is made possible by the mentioned policy of concentrating all risks deriving from movements in interest and exchange rates, including risks linked to both lending and funding activities, at the Bank's finance division. Interest rate risk also includes risks arising from movements in market curves linked to the credit rating of individual names.

VaR is based on expected volatility and the correlation between the risk factors concerned, and determines possible negative movements that may be expected as a result of market movements within a single trading day based on a 99% confidence level. VaR is calculated using the Monte Carlo and historical[1] simulations as well as the parametric method.

[1] Determines portfolio value based on random and historical variations in risk factors.

Note 29 – Risk management (continued)

(a) Market Risk: qualitative information (continued)

At the reference date, from an economic point of view, the Bank does not hold any trading position in derivatives or other complex financial instruments; only one security issued by a primary German Group is booked among the trading portfolio of the Bank. The sensitivity of the Bank portfolio of assets and liabilities to interest rate movements is calculated daily with respect both to its banking and trading books.

Liquidity risk is also calculated daily in view of the prospective timing of future cash flows, in order to establish the projected maturities for future cash requirements.

A steering committee analyses the Bank's assets structure and portfolio sensitivity on a fortnightly basis, to help management in taking strategic decisions on the Bank's operations by providing indications of profit trends and mismatches, if any, between the maturities of asset items implied in projected volume movements.

Counterparty risk

This is measured in terms of expected potential market value, thus doing away with the need to set arbitrary weightings for each type of fund employed, and identifies a maximum potential exposure to the Bank's various counterparties based on a given confidence level and over a specified time horizon.

Hedging

Fair value hedging

Fair value hedge is used to neutralize exposure to interest, currency or credit risk for particular asset or liability positions, via derivative contracts entered into exclusively with the Parent company. All structured bond issues are fair value hedged as to the interest rate component, while index-linked issues are accounted for as part of the trading book. Fair value hedges are also used in corporate finance for certain bilateral fixed-rate transactions or in order to reduce credit risk.

Cash flow hedging

At the reference date, the Bank has not entered in any derivative contracts for cash flow hedging purposes.

(b) Credit risk

All the loans to customers are guaranteed principally by Mediobanca S.p.A., with the exception of the loans to foreign banks connected with Italian company export activities, which are guaranteed by SACE group and which carry a zero risk weighting under Basel agreements (Basel I and II). All interbank loans and derivative financial instruments are contracted with Mediobanca S.p.A..

Note 29 – Risk management (continued)

(b) Credit risk (continued)

Management is involved at a close level in the monitoring of the Bank's fund raising and corporate lending activity. The Bank adopts a conservative approach to its lending activities, which are uniquely concerned with corporate lending activities.

A risk committee has been established, which passes resolutions in respect of each lending and funding transaction. A minimum of three directors approve the terms and conditions thereof. Every new loan goes through a thorough process and is analysed by the credit department, which presents the risk committee with evaluations of credit risk based on creditworthiness, quality and nature of the counterparty, the process of granting loans and close monitoring in the case of any subsequent outstanding exposures are all carried out with extreme care. Positions are regularly monitored as regards financial and balance sheet data, earnings and relevant market information to continuously assess risk and evaluate the performance of lending activities.

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the balance sheet, including derivatives and excluding tangible and intangible assets and tax assets. The maximum exposure is shown before the effect of mitigation through the use of collateral agreements.

In EUR'000	**Maximum exposure 30 June 2008**	**Maximum exposure 30 June 2007**
Cash and cash balances with central banks	19.584	37.436
Financial assets held for trading	110.499	36.676
Loans and advances	5.344.622	6.645.076
Derivatives held for hedging	20.878	3.493
Other assets	609	905
Total	**5.496.192**	**6.723.586**

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of change in values.

Note 29 – Risk management (continued)

(b) Credit risk (continued)

In EUR'000	**Maximum exposure 30 June 2008**	**Maximum exposure 30 June 2007**
- Commitments	859.687	4.592.450
- Guarantees	36.094	42.112

For more detail on the maximum credit exposure to credit risk for each class of financial instruments, references shall be made to the specific notes.

Credit quality per class of financial assets

The table below shows the credit quality by class of credit risk assets (Financial assets held for trading and Loans and advances), based on the Bank's credit rating system (outstanding nominal amounts at the reference date).

	Neither past due nor impaired						
	Prime Quality 30 June 2008	**High grade 30 June 2008**	**Standard grade 30 June 2008**	**Sub-standard grade 30 June 2008**	**Not Rated**	**Past due or individually impaired 30 June 2008**	**TOTAL 30 June 2008**
Financial assets held for trading	---	110.499	---	---	---	---	110.499
Loans and advances to credit institutions	---	1.998.938	268.679	---	---	---	2.267.617
Loans and advances to customers	---	675.879	1.803.671	585.500	---	---	3.065.050
Total	---	**2.785.316**	**2.072.350**	**585.500**	---	---	**5.443.166**

	Neither past due nor impaired						
	Prime Quality 30 June 2007	**High grade 30 June 2007**	**Standard grade 30 June 2007**	**Sub-standard grade 30 June 2007**	**Not Rated**	**Past due or individually impaired 30 June 2007**	**TOTAL 30 June 2007**
Financial assets held for trading	---	36.676	---	---	---	---	36.676
Loans and advances to credit institutions	---	2.908.364	278.998	---	---	---	3.187.362
Loans and advances to customers	---	919.538	1.530.783	952.217	---	---	3.402.538
Total	---	**3.864.578**	**1.809.781**	**952.217**	---	---	**6.626.576**

Note :
Prime quality: AAA
High grade: AA-A
Standard grade: BBB-BB
Sub-standard grade: B and less

Note 29 – Risk management (continued)

(b) Credit risk (continued)

Geographical allocation of risks

As at 30 June 2008 and 2007, the distribution by geographical area of the risks held in the financial instruments held for trading and Loans and advances before taking into account collateral held and other credit enhancements, without considering credit risk assets included in disposal groups classified as held for sale, can be summarized as follows:

In EUR'000	30 June 2008		30 June 2007	
	Financial instruments held for trading	Loans and advances	Financial instruments held for trading	Loans and advances
Australia	---	4.381	---	---
Belgium	---	60.358	---	---
Bolivia	---	941	---	1.422
Canada	---	20.422	---	13.752
Germany	4.950	378.108	5.257	46.716
Denmark	---	75.203	---	84.929
Spain	---	27.988	---	192.721
Finland	---	33.132	---	---
France	---	1.050.666	---	1.486.747
United Kingdom	---	330.934	---	350.254
Italy	105.549	2.003.362	31.419	2.945.524
Luxembourg	---	703.097	---	959.005
Netherlands	---	240.350	---	77.503
Russia	---	266.741	---	279.874
USA	---	148.939	---	206.629
Total	**110.499**	**5.344.622**	**36.676**	**6.645.076**

Note 29 – Risk management (continued)

(b) Credit risk (continued)

Sectorial allocation of risks

An industry sector analysis of the Bank's financial instruments held for trading and Loans and Advances, before and after taking into account collateral held or other credit enhancements, without considering credit risk assets included in disposal groups classified as held for sale, is as follows:

In EUR'000	30 June 2008 Gross maximum exposure	30 June 2008 Net maximum exposure	30 June 2007 Gross maximum exposure	30 June 2007 Net maximum exposure
Food and Beverage	231.086	---	94.665	---
Manufacturing	38.032	---	---	---
Construction and materials	436.114	---	212.172	---
Energy	7.016	---	---	---
Financial services	3.119.939	---	4.166.804	---
Materials	283.762	---	77.467	---
Health care	189.801	---	959.777	---
Education	8.517	---	9.198	---
General retailers	60.217	---	7.867	---
Telecommunications	74.813	---	84.096	---
Media	195.195	---	200.382	---
Consumers	156.135	---	---	---
Transport	476.173	---	614.459	---
Gambling	69.347	---	93.794	---
Utility	59.541	---	136.030	---
Other	49.373	---	25.041	---
TOTAL	5.455.121	---	6.681.752	---

Net maximum exposure consists of the gross maximum exposure less the amount of the collateral given at the reference date. All outstanding exposures are fully guaranteed (principal + interests) by the Parent company.

Concentration of risks

In order to avoid a too high concentration of risks, the Bank is required to respect two criteria under Luxembourg law. Firstly, in order to avoid a too high concentration of risk, the Bank is required to observe the following limits on a permanent basis:

Note 29 – Risk management (continued)

(b) Credit risk (continued)

- the total risk exposure towards a single client or group of connected clients must not exceed 25% of the own funds of the Bank; however, the Bank received a derogation from the CSSF in March 2006 due to the fact that all loans are guaranteed by the Parent company or Italian Government agencies and are consolidated with the Parent company which is subject to supervision by the Bank of Italy;
- the total risk exposure towards the Parent company or subsidiaries of the Bank must not exceed 20% of the own funds of the Bank;
- the total value of all large exposures must not exceed 800% of the own funds of the Bank.

As at 30 June 2008, the lending limit amounted to EUR'000 13.111 (2007: EUR'000 17.285) and - except for intergroup operations - no borrower exceeded this amount. The main exposure relates to 46 borrowers or group of borrowers with financing between EUR'000 7 and 2.000 each.

The second criteria is the solvency ratio. This ratio, as defined by the applicable regulation, defines the minimum amount of own funds that the Bank has to maintain in relation to the total weighted credit risk of the assets and off balance sheet. The minimum limit is 8%.

As of 30 June 2008, the solvency coefficient of the Bank was 17,72% (30 June 2007: 11,64%).

(c) Liquidity risk

Liquidity risk is monitored by the calculation of the Bank's liquidity ratio in the manner laid out by the CSSF reporting instructions.

The Bank's principal activity is that of raising funds by way of the issuance and placement of bonds and other financial instruments the proceeds of which are usually lent to the Parent company. The financing for the Corporate Lending activity is principally through matched funding transactions with the Parent company. Given the nature of these transactions, it is not expected that the Bank will encounter liquidity risk.

<u>Duration analysis</u>

The tables below present the composition of financial assets and liabilities of the Bank by maturity dates:

Note 29 – Risk management (continued)

(c) Liquidity risk (continued)

30 June 2008 (EUR'000)	< 1 month	≥ 1 month < 3 months	≥ 3 months < 6 months	≥ 6 months < 1 year	≥ 1 year < 2 years	≥ 2 years < 5 years	≥ 5 years	Undetermined	Total
Cash and cash balances with central banks	19.584	---	---	---	---	---	---	---	19.584
Financial assets held for trading	---	1.450	162	---	1.453	32.953	74.481	---	110.499
Derivatives held for hedging	---	---	---	---	202	1.267	19.409	---	20.878
Loans and advances	319.620	395.655	708.167	774.951	180.835	1.634.832	1.277.248	53.314	5.344.622
Other assets	---	---	---	---	---	---	---	30.873	30.873
Total assets	**339.204**	**397.105**	**708.329**	**774.951**	**182.490**	**1.669.052**	**1.371.138**	**84.187**	**5.526.456**
Financial liabilities held for trading	---	1.450	162	---	1.453	32.953	69.531	---	105.549
Derivatives held for hedging	---	1.217	---	---	---	17.131	18.608	---	36.956
Amounts due to credit institutions	65.575	101.617	641.642	25.693	156.245	1.382.232	1.026.387	12.074	3.411.465
Amounts due to customers	8.200	---	---	---	---	---	26.947	67	35.214
Debt securities in issue	213.484	261.130	66.809	749.243	71.947	217.551	160.358	11.252	1.751.774
Subordinated liabilities	---	---	---	---	---	---	39.250	6	39.256
Other liabilities	---	---	---	---	---	---	---	44.252	44.252
Shareholders' equity	---	---	---	---	---	---	---	101.990	101.990
Total liabilities	**287.259**	**365.414**	**708.613**	**774.936**	**229.645**	**1.649.867**	**1.341.081**	**169.641**	**5.526.456**

Note 29 – Risk management (continued)

(c) Liquidity risk (continued)

30 June 2007 (EUR'000)	< 1month	≥ 1 month < 3 months	≥ 3 months < 6 months	≥ 6 months < 1 year	≥ 1 year < 2 years	≥ 2 years < 5 years	≥ 5 years	Undetermined	Total
Cash and cash balances with central banks	37.436	---	---	---	---	---	---	---	37.436
Financial assets held for trading	3.663	9.220	74	---	669	8.776	14.274	---	36.676
Derivatives held for hedging	---	---	---	---	1	3.492	---	---	3.493
Loans and advances	15.477	2.039.463	32.653	840.315	1.478.509	1.226.743	972.217	39.699	6.645.076
Other assets	---	---	---	---	---	---	---	13.470	13.470
Total assets	**56.576**	**2.048.683**	**32.727**	**840.315**	**1.479.179**	**1.239.011**	**986.491**	**53.169**	**6.736.151**
Financial liabilities held for trading	974	9.220	74	---	669	16.959	834	---	28.730
Derivatives held for hedging	---	3.556	---	---	11.992	11.785	3.510	43	30.886
Amounts due to credit institutions	---	125.193	---	840.315	870.000	861.156	1.027.997	17.770	3.742.431
Debt securities in issue	8.248	1.902.301	24.704	---	605.578	148.847	97.143	---	2.786.821
Subordinated liabilities	---	---	---	---	---	---	---	39.260	39.260
Other liabilities	---	---	---	---	---	---	---	20.403	20.403
Shareholders' equity	---	---	---	---	---	---	---	87.620	87.620
Total liabilities	**9.222**	**2.040.270**	**24.778**	**840.315**	**1.488.239**	**1.038.747**	**1.129.484**	**165.096**	**6.736.151**

Note 29 – Risk management (continued)

(d) Foreign exchange risk

The Bank does not take foreign exchange risk: the funding in non-Euro currencies is done on the basis of the same features of the loans in terms of interest rate and maturity.

As at 30 June 2008 and 2007, the assets and liabilities denominated in EUR, in USD and in other currencies are as follows (in EUR'000):

30 June 2008 (in EUR'000)	**EUR**	**USD**	**Other**	**Total**
Cash and cash balances with central banks	19.584	---	---	**19.584**
Loans and advances	4.540.422	467.284	336.916	**5.344.622**
Other assets	161.922	1	327	**162.250**
Total assets	**4.721.928**	**467.285**	**337.243**	**5.526.456**
Amounts due to customers	35.214	---	---	**35.214**
Amounts due to credit institutions	2.859.081	347.667	243.972	**3.450.720**
Other liabilities	1.723.692	117.234	97.606	**1.938.532**
Shareholders' equity	101.990	---	---	**101.990**
Total liabilities	**4.719.977**	**464.901**	**341.578**	**5.526.456**

30 June 2007 (in EUR'000)	**EUR**	**USD**	**Other**	**Total**
Cash and cash balances with central banks	37.436	---	---	**37.436**
Loans and advances	5.083.360	876.766	684.950	**6.645.076**
Other assets	52.863	---	776	**53.639**
Total assets	**5.173.659**	**876.766**	**685.726**	**6.736.151**
Amounts due to credit institutions	2.964.113	418.141	399.437	**3.781.691**
Other liabilities	2.111.203	435.061	320.576	**2.866.840**
Shareholders' equity	87.620	---	---	**87.620**
Total liabilities	**5.162.936**	**853.202**	**720.013**	**6.736.151**

(e) Interest rate risk

Interest rate risk is low due to the following factors:

- The Corporate Lending activity is covered by matched financing whereby the Bank is able to ensure that the spread is in its favour;
- Interest rate risk is closely monitored and controlled by the Treasury activity of the Bank;

The tables below show the interest rate risk by maturity dates:

Note 29 – Risk management (continued)

(e) Interest rate risk (continued)

30 June 2008 (EUR'000)	< 1 month	≥ 1 month < 3 months	≥ 3 months < 6 months	≥ 6 months < 9 months	≥ 9 months < 12 months	Undetermined	Total
Cash and cash balances with central banks	19.584	---	---	---	---	---	19.584
Financial assets held for trading	---	---	---	---	---	110.499	110.499
Derivatives held for hedging	1.212	7.323	7.821	---	4.522	---	20.878
Loans and advances	2.513.079	1.328.442	325.169	389.360	788.572	---	5.344.622
Other assets	---	---	---	---	---	30.873	30.873
Total assets	**2.533.875**	**1.335.765**	**332.990**	**389.360**	**793.094**	**141.372**	**5.526.456**
Financial liabilities held for trading	---	---	---	---	---	105.549	105.549
Derivatives held for hedging	3.239	11.158	5.023	3.127	2.122	12.287	36.956
Amounts due to credit institutions	1.908.235	807.105	241.200	345.581	---	109.344	3.411.465
Amounts due to customers	8.200	---	---	---	---	27.014	35.214
Debt securities in issue	224.981	493.771	100.498	44.429	7.605	880.490	1.751.774
Subordinated liabilities	---	---	---	---	39.256	---	39.256
Other liabilities	---	---	---	---	---	44.252	44.252
Shareholders' equity	---	---	---	---	---	101.990	101.990
Total liabilities	**2.144.655**	**1.312.034**	**346.721**	**393.137**	**48.983**	**1.280.926**	**5.526.456**

Note 29 – Risk management (continued)

(e) Interest rate risk (continued)

30 June 2007 (EUR'000)	**< 1 month**	**≥ 1 month < 3 months**	**≥ 3 months < 6 months**	**≥ 6 months < 9 months**	**≥ 9 months < 12 months**	**Undetermined**	**Total**
Cash and cash balances with central banks	37.436	---	---	---	---	---	**37.436**
Financial assets held for trading	---	---	---	---	---	36.676	**36.676**
Derivatives held for hedging	302	670	1.085	---	---	1.436	**3.493**
Loans and advances	1.052.083	2.464.543	1.327.505	1.264.720	535.753	472	**6.645.076**
Other assets	---	---	---	---	---	13.470	**13.470**
Total assets	**1.089.821**	**2.465.213**	**1.328.590**	**1.264.720**	**535.753**	**52.054**	**6.736.151**
Financial liabilities held for trading	---	---	---	---	---	28.730	**28.730**
Derivatives held for hedging	3.527	18.373	6.115	---	---	2.871	**30.886**
Amounts due to credit institutions	484.990	833.886	1.111.800	1.027.219	200.051	84.485	**3.742.431**
Debt securities in issue	770.952	1.300.763	69.242	---	---	645.864	**2.786.821**
Subordinated liabilities	---	---	---	---	39.260	---	**39.260**
Other liabilities	---	---	---	---	---	20.403	**20.403**
Shareholders' equity	---	---	---	---	---	87.620	**87.620**
Total liabilities	**1.259.469**	**2.153.022**	**1.187.157**	**1.027.219**	**239.311**	**869.973**	**6.736.151**

Note 29 – Risk management (continued)

(e) Interest rate risk (continued)

- According to the part VIII of the Circular CSSF 08/338, an "endurance test" of interest rate risk was carried out as at 30 June 2008. The simulation was based on two different scenarios (parallel shift of the interest rate curve +200 and -200 bps). The results achived are described herein after:
    - Scenario +200 bps: EUR 1.743.086
    - Scenario -200 bps: EUR -1.810.778.

(f) Operational risk

Segregation of duties, internal procedures, and technological systems in force mitigate the risk of losses due to errors or inadequacies.

(g) Profitability risk

Profitability risk is low due to the following factors:

- The Bank's earnings consist exclusively of spreads on an 'arms length basis'.
- Management maintains sufficient control over its margins and costs in order to ensure continued profitability.

(h) Capital management

The Bank is subject to the local regulation in relation to the capital adequacy ratio. The Bank calculates the simplified solvency ratio, which is followed on a monthly basis.
As of 30 June 2008, the solvency ratio of the Bank is 17,72% (30 June 2007: 11,64%), above the limit of 8%.

Note 30 – Audit fees

As of 30 June 2008 and 2007, the audit fees are split as follows (in EUR):

	30 June 2008	**30 June 2007**
Audit fees	98.600	88.600
Audit related fees	8.500	---
Total	**107.100**	**88.600**

Note 31 – Related party disclosures

Identity of related parties

The Bank has a related party relationship with its Parent company, entities of its Group and with its directors and executive officers.

The amounts of assets, liabilities, income and expenses as at 30 June 2008 and 2007 concerning Group entities and the Parent company are as follows:

Assets and liabilities (in EUR'000)	**30 June 2008**	**30 June 2007**
Financial assets held for trading	20.887	31.419
Loans and advances to credit institutions	2.003.259	2.945.052
Derivatives held for hedging	20.878	3.494
Other assets	195	---
Total assets	**2.045.219**	**2.979.965**
Financial liabilities held for trading	105.549	1.882
Amounts due to credit institutions	3.380.686	3.697.206
Derivatives held for hedging	36.956	30.886
Other liabilities	7.686	---
Total liabilities	**3.530.877**	**3.729.974**

Income and expenses (in EUR'000)	**30 June 2008**	**30 June 2007**
Interest and similar income	137.395	102.993
Interest expenses and similar charges	-178.729	-83.788
Fee and commission income	---	547
Fee and commission expenses	-8.029	-6.654
Net gains and losses on financial assets and liabilities held for trading	-70.480	606
Net gains and losses from hedge accounting	-7.481	5.298
Administrative expenses	-897	-834

The Bank's incurred in expenses with respect to the remuneration of the members of the administrative, management and supervisory bodies of the Bank are as follows (in EUR'000):

	30 June 2008	**30 June 2007**
Administrative bodies	---	---
Key management personnel	331	255
	331	**255**

As of 30 June 2008 and 2007, neither advances nor guarantees were granted to Directors or Senior Management. In addition, Directors and Senior Management do not benefit from any pension plan contributions.

Note 32 – Events after the balance sheet date

The Bank is not aware of any adjusting or non-adjusting event that would have occurred between 30 June 2008 and the date when the present annual accounts were authorised for issue.